Blackfoot Telephone Cooperative, Inc.

Positive Impacts of the *USF/ICC Transformation Order* On Blackfoot Telephone Cooperative and Consumers

June 20, 2012

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Overview

- Blackfoot is a rural ILEC serving Western Montana
  - Approximately 14,250 ILEC access lines
  - 6,500 square mile service area
  - 145 employees
  - Active CLEC and software subsidiaries
- Blackfoot has strived to achieve efficiency in its operations while maintaining excellent customer service
- As a result, the legacy (status quo) FUSF arithmetic, which rewards costs, punishes Blackfoot and similarly situated companies.
- Reform of FUSF will not increase Blackfoot's FUSF revenue, but it does lessen the negative impact of "no reform".

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Status Quo Encourages "Race to the Top"

Summary of BTC HCL FUSF

BTC has been, and continues to be, impacted by the pre-Transformation Order HCL arithmetic. Due to a rapid increase in the NACPL, BTC's portion of the HCL fund has declined from .48% in 2010 to a projected level of .05% by 2016. Without reform of HCL, BTC's HCL FUSF would decline from $4.6M in 2010 to $381k in 2016. By 2017, BTC's HCL is projected to be $0.

	2010	2011	2012	2013	2014	2015	2016
NACPL	**423.66**	**471.90**	**524.24**	**590.64**	**670.79**	**768.61**	**883.79**
Nat Cap ($000)	961,959	905,932	858,191	832,445	807,472	783,248	759,750
BTC Loops	15,879	14,256	13,726	13,151	12,535	11,950	11,424
BTC CPL	896.04	890.30	904.57	925.79	925.79	925.79	925.79
Tot HCF ($000)	**4,635**	**3,997**	**2,920**	**2,264**	**1,427**	**819**	**381**
Tot % of Cap	**0.48%**	**0.44%**	**0.34%**	**0.27%**	**0.18%**	**0.10%**	**0.05%**
HCF Change ($000)		**(638)**	**(1,078)**	**(656)**	**(837)**	**(608)**	**(438)**
% HCF Effect		**(13.8%)**	**(27.0%)**	**(22.5%)**	**(37.0%)**	**(42.6%)**	**(53.5%)**

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Blackfoot's Network Evolution

- In the late 90's Blackfoot Telephone Cooperative began delivering the early versions of ADSL broadband service. Our network at the time was comprised of AFC digital loop carriers, connecting to 21 Nortel DMS100 remote switches.
- In late 2001 we developed a new vision for our network. This vision encompassed a "future proof" strategy in its support of new services and evolving bandwidth requirements, as well as being extremely cost effective. The new network would be based on DWDM, Ethernet, and IP protocols.
- The final design included consolidating all remote switches into one centralized softswitch, provided by Metaswitch. It also called for replacing over 150 remote AFC terminals with Occam all IP systems.

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Blackfoot's Network Evolution

- Blackfoot's new network exceeded design criteria. We reduced our annual network maintenance and software upgrade expenses by over 50%. Our network switching capital expenses, on a yearly basis, fell by roughly 30%. We also now deploy Ethernet services over copper or fiber facilities at virtually any speed.
- Our network is also designed to quickly and cost effectively deploy FTTP when and where it is required. All field terminals are fiber fed, and capable of supporting FTTP service packs. Our current strategy is to deploy FTTP when it is necessary to upgrade aging copper loops, or in new developments. With this new architecture and philosophy, we have been able to meet and exceed any customer requests for broadband services.

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IP Conversion: Switch Cost

Change in Switch Cost

- BTC reduced its host switching cost by over 40% due to the conversion from legacy (Nortel DMS) circuit switching to an IP Platform (MetaSwitch).

Switch Cost ($/NAL/mth)*

	2005	2011	Effect	%Effect
Volume Sensitive	2.16	0.76	(1.40)	-65%
Volume Insensitive	3.45	2.55	(0.90)	-26%
Total	5.61	3.31	(2.30)	-41%

Company Proprietary Information

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FTTH Overbuild

- Blackfoot carefully analyzed a broad FTTH overbuild and could find no economic basis for the $87 million expenditure.
- We were unable to identify any incremental increased revenue, and even assuming an indefinite flow of FUSF, it produced a negative outcome.

CapEx (000)	86,886
ACF	0.1273
Annual Cost	11,061
Retail & Admin Expenses	0
Total Annual Cost	11,061
Incremental Service Revenue	0
Incremental P36 Revenue	10,584
Annual Revenue	10,584
Contr Margin	**-477**
Margin %	**-4.3%**
Corp Ovh	16.0%
Residual Margin	-20.3%

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Alta Economics

- BTC's unserved broadband is largely limited to a single, remote wire center with very low density. Blackfoot has elected to not deploy broadband and instead will rely on alternative, lower cost solutions.

Average cost is	$ 20,732	cap ex per sub.
	$ 318	mthly cost per sub.

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Blackfoot has contained cost (and not "grown revenue requirement")

Effect of Regression Caps

BTC's cost for the two Study Areas are 68% and 56% of the caps identified by the Quantile Regression.

APPENDIX B

Quantile Regression Cost Per Loop (CPL)

Study Area Name	Current CPL	Current Capex CPL	90% Capex CPL Estimate	BTC % of CapEx Cap	Current Opex CPL	90% Opex CPL Estimate	BTC % of OpEx Cap	CPL used to Determine Support	Regression Cap	BTC % of Tot Cap
BLACKFOOT TEL - BTC	$989	$485	$826	59%	$504	$631	80%	$989	$1,457	68%
BLACKFOOT TEL - CFT	$806	$417	$841	50%	$389	$609	64%	$806	$1,450	56%

Source:
See Connect America Fund; A National Broadband Plan for Our Future; Establishing Just and Reasonable Rates for Local Exchange Carriers; High-Cost Universal Service Support; WC Docket Nos. 10-90, 05-337, DA 12-646, Appendix B, Released: April 25, 2012.

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Blackfoot's prices are in line with the established Transformation Order benchmarks

BTC Local Service Prices

In 2004, BTC implemented a sweeping rate "re-balancing" in the form of EAS. At that time we shifted $2.2M (60%) of intrastate carrier access revenue to access line recovery (effectively a $13/month intrastate SLC).

Existing Prices	$/month
R1	25.00
EUCL	6.50
Total NAL	**31.50**
Benchmark	**30.00**
% of Benchmark	**105%**

BTC's Local Service prices for Residential Service are 105% of the benchmark (business prices are $45.90 per line per month, excluding the EUCL).

BTC is not subject to Benchmark or Floor constraints.

BTC will have no ARC additives (Residential or Business) for at least the first 3 years of the ICC 9 year reform period.

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Advanced Services

Blackfoot Broadband Coverage

Data as of April 1, 2012

Total Access lines 14,240

Broadband Speed (up/down)	Percentage available including Alta & Powell
768/256	98.0%
Current FCC BB definition	
4/1	95.4%
Proposed FCC BB definition	
15/1 and above	69.0%
Fastest BB speed available from BTC today	
24/1	37.4%
Fastest BB speed available from BTC using ADSL2+	

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Customer Satisfaction

Customer Satisfaction Score 2011

Customer satisfaction measurements, produced by an independent survey (Pivot Group) indicate exceptional BTC customer satisfaction: 4.17 (Good to Excellent) on a scale of 1 - 5.

Q: All things considered, how do you rate Blackfoot?

		Residential	Business	Total
5	Excellent	541	260	801
4		496	355	851
3	Neutral	175	117	292
2		36	19	55
1	Poor	11	5	16
	Score:	**4.21**	**4.12**	**4.17**

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Transformation Order has positive effects

- The Commission is pursuing the correct policy revisions to target support and eliminate, or at least reduce, the "race to the top"
- "Recycled support" flows from capped companies back to uncapped companies.
- Because Blackfoot was a pool contributor, ICC reform capped Blackfoot's ICC revenue at a level higher than its current revenue requirement.
- Reasonable limits on costs do not negatively impact high levels of customer service, but incent efficient network evolution and usage, as well as partnership opportunities.

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